

**TWENTY-FOURTH ANNUAL REPORT
OF THE
BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

**COVERING OPERATIONS
FOR THE YEAR 1937**



**UNITED STATES OF AMERICA
WASHINGTON: 1938**

executive committee shall promptly notify all members of the Federal Open Market Committee of such purchases. The Federal Open Market Committee reserves the right, and authorizes the executive committee, at any time to require the sale of any Government securities purchased by an individual Federal Reserve bank for its own account, or to require that such securities be transferred to the System Open Market Account, or to reduce the holdings of other Government securities in the System Open Market Account in an equivalent amount."

On this motion the members voted as follows: "aye," Messrs. Harrison, Fleming, Schaller, Hamilton, McKinney, and Broderick; "no," Messrs. Eccles, Szymczak, Ransom, McKee and Davis.

Mr. Broderick then stated that he desired to withdraw his vote, that, while he favored the adoption of the resolution, he believed that motions of this character, if adopted, should prevail by a larger margin than had been indicated in this case, and that, therefore, he wished to be recorded as not voting. Thereupon the motion was declared lost.

The reason advanced for the motion was that it was important that the Federal Reserve System be prepared to act promptly in any emergency which might arise, that there was doubt whether the appropriate machinery was available to take care of a pressing emergency involving individual member or nonmember banks, that on some occasions in the past events had taken place so rapidly that adequate opportunity was not available for committee action of that sort, and therefore that each Federal Reserve bank should be in a position to purchase Government securities when necessary to afford relief in an emergency situation involving one or more specific banking institutions in its district which might arise so rapidly as to require action before the executive committee of the Federal Open Market Committee could consider the matter. The votes against the motion were upon the ground that the Federal Reserve banks, through the exercise of their powers to make loans and resale agreements, had ample authority to deal with specific local situations which might arise without warning; that in all other cases the Reserve banks would have sufficient notice of the development of the situation to bring the matter to the attention of the executive committee of the Federal Open Market Committee for consideration and action; and that, therefore, authority in the Federal Reserve banks to make emergency purchases of Government securities was not necessary.

3. Authority to Replace Maturing Securities and to Make Shifts of Securities in System Open Market Account.

By unanimous vote, the Committee instructed the executive committee to direct the replacement of maturing securities in the System Open Market Account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$600,000,000 nor less than \$300,000,000.

This authority was granted for the reason that it was felt that the executive committee should have such authority as might be necessary in the proper administration of the System open market account to enable it to replace maturing securities and to make shifts between maturities in the account, including authority to increase the holdings of bonds with maturities in excess of five years as well as authority to reduce such holdings within certain reasonable limitations, to meet changing market conditions and to improve the distribution of maturities in the account.

4. Authority to Increase or Decrease System Account.

By unanimous vote, the Committee authorized the executive committee, subject to telegraphic or written approval by a majority of the members of the Federal Open Market Committee, to direct that the present amount of Government securities in the System open market account be increased or decreased by not more than \$500,000,000.

The Committee had in view the possibility of a decision by the Board of Governors to make a further increase in requirements as to reserves of member banks, which, if made to the full extent permitted by law, would result in a substantial reduction in excess reserves and, consequently, in less flexibility in the money market, in which circumstances larger open market operations might be necessary. The probability of a substantial net withdrawal of funds from the market over the March 15th tax payment period was also considered, and the Committee was of the opinion that the executive committee should be in a position to take such action with respect to an increase in the System account as might be necessary to offset any undesirable effect that might result from a large withdrawal of funds. It was also agreed that the executive committee should have authority to take such action with respect to an increase or decrease (which would include authority to allow maturities to run off) in the System portfolio as might be necessary to meet unforeseen circumstances.

MEETING ON MARCH 15, 1937

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Broderick, Mr. Szymczak, Mr. Ransom, Mr. McKinney, Mr. Martin, Mr. Peyton (alternate for Mr. Day).

1. Authority to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account.

By unanimous vote, the Committee instructed the executive committee to direct the replacement of maturing securities in the System open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$800,000,000 and that the amount of bonds having maturities in excess of five years be not over \$800,000,000 nor less than \$500,000,000.

After a review of business and credit conditions including the condition of the Government securities market, the members agreed that, in

the absence of conditions not then foreseen, an increase in the System portfolio would not be justified, that the executive committee should continue to operate under authority granted by the Federal Open Market Committee to replace maturing securities and to make shifts of securities in the account with a view to preventing a disorderly market, and that for that purpose additional authority should be granted to the executive committee to make such shifts and replacements. It was the consensus that it would be undesirable for the System to continue indefinitely to increase the proportion of bonds held in the System account at as great a rate as had taken place during the preceding week and that if it appeared that the prevention of a disorderly market would justify further shifts in large amounts, beyond the limits set by the action referred to above, it might become advisable to increase the aggregate amount of securities held in the account in order to preserve a desirable ratio of short to long-term securities in the account.

2. Authority to Increase or Decrease System Account.

By unanimous vote, the Committee authorized the executive committee to arrange for an increase or decrease in the amount of securities then in the System open market account by not more than \$250,000,000 in the event of an emergency arising requiring such action before a meeting of the Federal Open Market Committee could be held.

This action was taken in order to enable the executive committee to act promptly in the event unforeseen circumstances should make action desirable before another meeting of the full Committee, with the understanding that in the absence of an emergency the executive committee would act under the authority to replace maturing securities and to make shifts in the account, that on the basis of the then existing situation there was no necessity to resort to the authority to make increases in the System portfolio, and that such action would be resorted to only in the event of the development of new circumstances which, in the judgment of the executive committee, would make necessary an increase in the portfolio.

MEETING ON APRIL 4, 1937

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Broderick, Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Sinclair, Mr. McKinney, Mr. Martin, Mr. Peyton (alternate for Mr. Day).

1. Authority to Increase or Decrease System Account.

It was moved that the following resolution be adopted:

"The Federal Open Market Committee directs the executive committee to make such purchases or sales of United States Government securities, beginning April 5, 1937, as may be necessary with a view to preserving an orderly market, but to make purchases of not less than \$25,000,000 during the week beginning April 5, 1937, provided that the present aggregate amount of securities in the System open market account shall not be increased or decreased by more than \$250,000,000 prior to the next meeting of the Federal Open Market Committee. The character and maturities of the

securities acquired or sold shall be determined by the executive committee in the light of current market developments."

A motion to amend the above resolution by striking out the requirement that a minimum amount of securities be purchased during the week beginning April 5, 1937, was lost, Messrs. Harrison, Sinclair and Szymczak voting "aye" and Messrs. Eccles, Broderick, McKee, Ransom, Davis, McKinney, Martin and Peyton voting "no."

The original motion was then put by the chair and carried unanimously.

These motions were made following a review of business and credit conditions, including the reserve position of member banks as it would be influenced by the increase in reserve requirements which was to take effect on May 1, 1937, the developments in the money market and bond market, and particularly the continued weakness in the Government securities market, and a discussion of what, if any action should be taken by the Federal Open Market Committee in the circumstances.

The resolution was adopted in order to enable the executive committee to make open market purchases of United States Government securities for the System account in such amounts and at such times as might be desirable with a view (1) to exerting an influence toward orderly conditions in the money market and (2) to facilitating the orderly adjustment of member banks to the May 1 increase in reserve requirements. The purpose of this resolution was in conformity with the policy announced by the Board of Governors of the Federal Reserve System in its statement on January 30, 1937, which declared, with reference to the increase in reserve requirements, that by that action the System would be placed in a position where such reduction or expansion of member bank reserves as might be deemed to be in the public interest might be effected through open market operations.

The rejection of the motion to amend the resolution was based upon the opinion that a small amount of securities should be purchased during the week to demonstrate that the System was prepared to increase the amount of securities held in the System account as a means of preventing a disorderly market over the period of the adjustment by member banks of their reserves to meet the May 1 increase in reserve requirements.

2. Authority to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account.

By unanimous vote, the Committee instructed the executive committee to direct the replacement of maturing securities in the System open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

This action was a continuation of similar authority granted to the executive committee for the purpose of enabling the committee to re-